

WASHINGTON STATE DEPARTMENT OF REVENUE



FOR IMMEDIATE RELEASE

For more information, contact:

Mike Gowrylow

(360) 486-2113

Latest Compliance Study Shows Sharp Drop in Use Tax Compliance

OLYMPIA, Wash., Jan. 24, 2003— Registered businesses fail to pay 27.9 percent of use taxes due on out-of-state purchases, costing state and local governments more than \$100 million a year, according to a new compliance study issued by the Department of Revenue this week.

The rate of use tax noncompliance is up sharply from the 19.9 percent found in a 1996 study. One possible explanation is that the expansion of e-commerce is prompting more businesses to buy items from out of state, study author Don Gutmann said.

If an out-of-state company doesn't collect the sales tax on sales to Washington businesses, those businesses are required to pay an equivalent use tax when they file their state excise tax returns, but not all of them do.

While the rise in use tax noncompliance was worrisome, and is being met by intensified taxpayer education efforts, overall taxpayer compliance improved in several areas and remained high. Registered businesses paid 97.5 percent of taxes due, up slightly from 97.3 percent found in the 1996 study.

That 2.5 percent of noncompliance equaled \$183.6 million of state losses annually, plus another \$40.6 million in local losses. Some of these revenues are eventually recovered through enforcement efforts.

The study is based on the findings of audits of registered businesses between 1997 and 2000, with the losses annualized to calendar year 1998.

Other study findings:

- ◆ Annual noncompliance for sales tax was estimated at \$65.5 million. However, this represented only 1.3 percent of total sales tax liability.
- ◆ Hazardous substance tax had the second highest rate of noncompliance (14 percent).
- ◆ Accounting errors were the most common reason for noncompliance, occurring 56.9 percent of the time. Ignorance of statute accounted for 21.6 percent of noncompliance, difference of opinion for 15.7 percent, and negligence/fraud for 5.7 percent.
- ◆ The transportation/utility industry had the highest dollar level and the highest rate of noncompliance. Their estimated annual noncompliance of \$44.4 million equaled 7.7 percent of total tax liability.
- ◆ Construction firms had the second highest dollar level of noncompliance at \$40.3 million, equaling 4.5 percent of tax liability.
- ◆ Rates of noncompliance generally decreased as the size of firms increased. Firms under \$100,000 gross income did not report an estimated 3.4 percent of tax liability while firms between \$100,000 and \$500,000 did not report 7.8 percent. The rate was 1.5 percent for firms between \$10 million and \$50 million and 2 percent for firms with more than \$50 million in gross income.
- ◆ Despite higher rates of noncompliance, the actual dollar amount of non-reporting per firm for small taxpayers was much less than for large taxpayers.
- ◆ Noncompliance rates for newer firms were several times higher than those for older firms.

The complete report is available in the statistical reports section of the Department of Revenue's web site, <http://dor.wa.gov>, or directly at http://dor.wa.gov/docs/reports/Compliance_Study/stats_exec_sum.asp

###

Editors Note: Receive Department of Revenue news releases by email. Go to http://dor.wa.gov/Content/Contact/email/con_email_listserv_app.asp?listtype=news to sign up, or visit <http://dor.wa.gov> and follow the links.